

# Annual Engagement Policy Implementation Statement

## General Dynamics UK Limited Retirement and Death Benefit Scheme

6 April 2023 to 5 April 2024 (the “Scheme Year”)

### Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles (“SIP”) produced by the Trustee, has been followed. This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, the subsequent amendment in the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2019 and the guidance published by the Pensions Regulator.

This Implementation Statement covers the Defined Benefit (“DB”) Section of the Scheme. The Defined Contribution (“DC”) Section was terminated in October 2023 and the DC assets were transferred to a Master Trust arrangement. The DC Section has therefore been excluded from the Implementation Statement as the Trustees understanding is that the implementation statement requirement for the DC Section no longer applies.

The Statement should be read in conjunction with the Scheme’s SIP (in place at the Scheme Year end and dated September 2023) which is available via the following link:  
<https://generaldynamics.uk.com/about/pensionscheme/>

**The Trustees can confirm that all policies in the SIP on engagement in relation to the Scheme’s DB assets have been followed during the Scheme Year.**

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### **Investment Objectives of the Scheme**

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The Trustees' primary investment objective for the Scheme is to ensure the Scheme's assets and future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Scheme as they arise. In order for the Trustees to ensure that they can meet their obligations to the beneficiaries both in the short and long term without recourse to the Sponsoring Employer the Trustees have entered into a Bulk Purchase Annuity (BPA) with Legal and General Assurance Society (LGAS).

### **Review of the SIP**

The Scheme's SIP was reviewed in September 2023 following the Trustees decision to terminate the DC Section of the Scheme.

There were no changes made to the investment strategy for the DB Section of the Scheme. The Scheme has entered into a BPA with LGAS which is set to pay the remaining DB liabilities of the Scheme. There is a small residual surplus which is invested in 'Buyout Aware' funds, a diversified growth fund and a sterling liquidity fund. The objective of the buyout aware funds is to track the movement of any remaining GMP liabilities.

### **Policy on ESG, Stewardship and Climate Change**

The Scheme's SIP includes the Trustees' policy on Environmental, Social and Governance ("ESG") factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship.

In summary, the Trustees believe that ESG factors can influence the investment performance of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process.

The Trustees also believe that investing with a manager who approaches investments in a responsible way and takes account of ESG-related risks will lead to better risk adjusted performance results as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken.

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However, all of the Scheme's assets are invested in pooled funds and the Trustees accept the fact that they have very limited ability to influence the ESG policies and practices of the companies in which their managers invest. The Trustees therefore rely on the policies and judgement of their investment manager.

Examples of engagement activity by the Scheme's investment managers can be found in Appendix 1.

### Stewardship

The Trustees have given its investment managers full discretion in evaluating ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to the Scheme's investments in accordance with their own corporate governance policies, and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustees are supportive of the UK Stewardship Code published by the Financial Reporting Council and encourage the Scheme's underlying managers who are regulated by the Financial Conduct Authority to comply with the UK Stewardship Code.

### Voting Activity

The Trustees have delegated their voting rights to the investment managers, principally through being invested in pooled funds (noting that in this case votes are cast on behalf of the pooled fund not the Trustees, which do not own underlying assets directly). As a result, the Trustees do not use the direct services of a proxy voter, although some investment managers employ the services of proxy voters in exercising their voting rights on behalf of the Trustees.

A summary of voting activity is shown in Appendix 2.

### Significant votes

The Trustees consider a significant vote as any vote relating to material holdings (a company that represented at least 1.5% of the market capitalisation of any fund in which the Scheme was invested during the majority of the year), in each of the following thematic areas:

- **Climate Change:** including (but not necessarily limited to) low-carbon transition and physical damages resilience;

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- **Human Rights:** including (but not necessarily limited to) modern slavery, pay & safety in the workforce and supply chains and abuses in conflict zones; and/or
- **Diversity, Equity and Inclusion:** including (but not necessarily limited to) equal pay, board equality, and inclusive & diverse decision-making.

The Trustees will keep this definition under consideration based on emerging themes within internal discussions and from the wider industry. The Trustees did not inform managers of what they considered to be the most significant votes in advance of voting.

A summary of all significant voting activity can be seen in Appendix 2.

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### Appendix 1: Engagement Activity by the Scheme's Multi-Asset Fund Investment Manager

Over the year to 31 March 2024, Columbia Threadneedle ("CT") engaged with invested companies on a number of issues, including climate change, environmental stewardship, labour standards, public health, human rights business conduct and corporate governance. The investment manager disclosed the following engagement example:

#### **Adobe Inc**

**Sector:** Information Technology

**Stewardship Theme:** Human Rights

#### **Background**

Artificial Intelligence (AI) is embedded in many of Adobe's offerings and has the power to drive greater innovation and monetization opportunities. Their approach to Responsible AI was high on the manager's RI engagement agenda.

#### **Action**

CT held a dialogue with Adobe's Investor Relations and General Counsel to learn more about the company's approach to Responsible Artificial Intelligence ("AI"). They asked about the governance approach and requested further details on its impact assessment.

They also discussed areas of biggest potential risks and how Adobe approaches mitigating them. The company formed an AI ethics governance committee several years ago which is responsible for conducting an AI ethics review every time an AI feature is proposed. It involves identifying potential harm and bias and multiple tests to minimise and eliminate these risks where possible. To measure the success of its efforts to mitigate AI bias or harm, Adobe tracks the percentage of outputs that are categorised as harmful. Adobe provided context about its Firefly tool (its generative machine learning model used in the field of design), which is trained solely on its licensed assets in order to reduce copyright related risks. It also mentioned that a wide variety of teams are involved in the oversight of testing, to ensure diversity of perspectives are considered. Beyond social issues, the risks on the environment front in relation to AI are believed to be more nascent. Nonetheless, the topic is addressed at the Board level when considering the potential impact on its net zero commitment.

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### **Outcome**

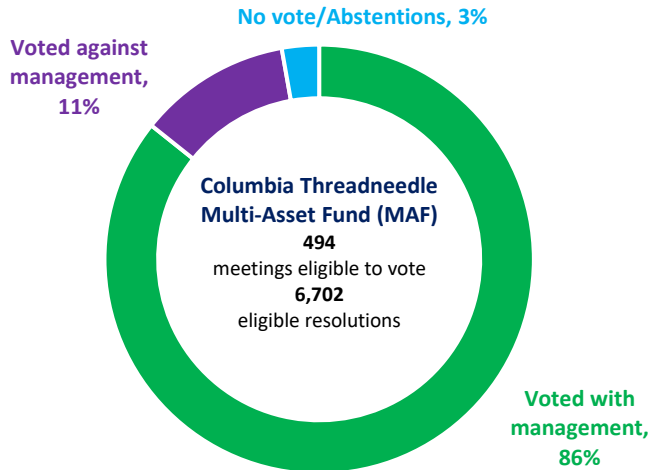
Adobe has been ahead of the curve on Responsible AI, which presents a revenue opportunity, competitive advantage, and the opportunity for proactive risk mitigation. CT were encouraged by the constructive dialogue, using the opportunity to better understand Adobe's leading approach. CT will take some of these findings and outcomes into its internal Responsible AI assessment framework as Responsible AI remains a key topic for 2024. Engagements such as these are key for CT to continuously evolve its understanding of how companies are thinking about Responsible AI and to learn and share good practices as CT encourage industry-wide improvement.

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## Appendix 2: Investment Manager Voting Summary & significant votes

Note: voting information is provided by investment managers where asset classes permit votes to be cast. Voting data provided is for the year to 31 March 2024.

The vast majority of the Scheme’s assets are invested in a BPA held with LGAS. With regard to the assets that remain invested in pooled investment vehicles, only the Columbia Threadneedle Multi Asset Fund maintains exposure to equity securities and is therefore able to vote in the underlying companies in which they invest in.



Source: Columbia Threadneedle. Voting over the year to 31 March 2024. Data may not sum due to rounding.

Columbia Threadneedle participated in c. 98.8% of the 6,702 resolutions they were eligible to vote over the Scheme year. Columbia Threadneedle advised that they are not able to provide client specific significant voting data but instead provided voting data across a wide range of themes. Based on the data provided, there were no votes that met the Trustees’ definition of “significant votes” over the year to 31 March 2024.